



**OPTIONS PAPER FOR A COMPREHENSIVE POLICY FOR APPROVING
AND FUNDING GRANT OBLIGATIONS**

Introduction	2
Section 1: Resource-mobilization modalities	3
Section 2: Policies for approving proposals and signing grant agreements	6
Question 1: Should the Board adopt a guiding principle of approving proposals on the availability of resources, or approving all technically-sound proposals, contingent upon resources becoming available?	6
Question 2: What commitment is being made when a proposal is approved and when a grant agreement is signed?	7
Question 3: What other factors influence the pool of resources available for commitment?	13
Question 4: Will the Global Fund always need to keep a large cash balance?	14
Section 3: Selecting proposals in a resource-constrained environment	15
Question 1: Should proposals be selected by further restricting applications, by prioritizing among TRP-recommended proposals, or by partially funding TRP-recommended proposals?.....	15
Sub-question 1A: If the Board chooses to further restrict applications, how can this best be accomplished?	17
Sub-question 1B: If the Board chooses to prioritize among TRP-recommended proposals, what criteria should it use?	21
Sub-question 1C: If the Board chooses to partially approve proposals, what approach should it use?	28
Section 4: Measuring the efficiency and effectiveness of the comprehensive funding policy	29

Introduction

1. The Global Fund was created to be a “warchest” capable of financing a major part of the response to AIDS, tuberculosis, and malaria in developing countries. The global community recognized that existing funding levels were entirely inadequate to finance comprehensive responses to these epidemics, and so set up the Global Fund to respond to the demand for increased financing.
2. As AIDS, tuberculosis, and malaria continue to spread throughout the world, the financing needs grow each year, accelerating particularly rapidly for AIDS. Recent UNAIDS estimates of the funding needs for AIDS indicates that for 2005 alone, more than US\$10 billion will be needed, of which only half is currently available from all sources.
3. Requests to the Global Fund reflect the magnitude of the need: the first Call for Proposals, in January 2002, was met with eligible requests of US\$1.6 billion over two years, which has increased to US\$2.1 billion and US\$1.6 billion in Rounds Two and Three, respectively.
4. In its first year and a half of operations, the Global Fund has been pledged more than US\$4.6 billion, has approved two rounds of funding proposals totaling US\$1.5 billion over the next two years, and has signed grant agreements totaling US\$600 million. Although to date only US\$40 million has been disbursed, this is accelerating rapidly. Indeed, in the four “start-up” countries that have the most experience with Global Fund disbursements, approximately one quarter of the entire two-year commitments has been disbursed just in the first six months of implementation.
5. As the Global Fund gains experience from its first several Rounds of financing, it is necessary to review the practices that were adopted to launch the Global Fund and examine whether they are still appropriate as the organization matures.
6. This paper presents options for a comprehensive policy to guide the Global Fund’s future work as a financing instrument. Many of the approaches described herein cannot be applied retroactively to the first two Rounds of approved proposals. In some cases, inconsistencies between the comprehensive policy and the existing approaches would have to be reconciled.
7. This paper is a precursor to the comprehensive funding policy paper that will be discussed at the October Board meeting, which will broaden the discussion of topics addressed herein, as well as make specific recommendations for the Board to consider.
8. The current paper addresses three key areas: resource-mobilization modalities, approving proposals and signing grant agreements, and selecting proposals in a resource-constrained environment.
9. To date, resource mobilization efforts have been ad hoc and voluntary. This approach has succeeded in mobilizing more than US\$4.6 billion to date, but it must be compared with possible alternative models for raising funds.
10. This paper addresses *modalities* for mobilizing resources, rather than addressing itself either to the specific techniques for raising funds or to the estimates of the funding shortfalls over the coming years.

11. In addition to the necessity of establishing a sustainable approach to financing the growing resource needs, it is also critical to make efficient and effective use of the funds committed to the Global Fund. This begins with identifying the appropriate policies governing the approval of proposals and the entering into binding grant agreements, but also requires balancing between the need to guarantee that sufficient financing is available for the entire duration of successful programs and the approval of new proposals.
12. In the event that resource mobilization efforts are unable to raise sufficient funds to meet the need, it will be necessary to develop mechanisms to select which proposals to fund. This can be done either by further restricting the applications process or by prioritizing among proposals recommended by the Technical Review Panel.
13. Although presented as distinct topics, these issues are closely interrelated and decisions in one section directly impact options in the others. For example, the predictability of the resource-mobilization modality influences what policies for approving proposals and signing grant agreements can be adopted, and the design of a policy for approving proposals helps determine the need to prioritize proposals.
14. The paper concludes by noting the importance of developing indicators for measuring the success of the approaches adopted. This is an area that will be developed as policies are adopted.

Part 1: Resource-mobilization modalities

1. As requested at the Fifth Board meeting, the Secretariat consulted extensively with the World Bank and others about the possible fund-raising approaches.
2. Four distinct modalities for resource-mobilization emerged from these discussions:
 - a) Voluntary contribution system on an ad hoc pledging basis (current system);
 - b) Voluntary contribution system on a periodic basis;
 - c) Burden-shared system on a periodic basis;
 - d) Burden-shared system on an ad hoc pledging basis.
3. In addition, hybrid systems combining several of these modalities are possible, as described below following the descriptions and summaries of the pros and cons of each basic modality
4. To date, the Global Fund has relied on a voluntary contribution system on an ad hoc pledging basis. The size, timing, and duration of a contribution are at the discretion of the donor. The experience to date is that the size of contributions has varied considerably between donors, while the timing of pledges has tended to be related to external events (e.g., summits of heads of state). The duration of pledges also varies considerably, although there appears to be an emerging trend for pledges to cover a longer period of time.
5. A voluntary contribution system on a periodic basis would continue to allow a donor to determine the size of a contribution, but would harmonize the timing of contributions through periodic donors' conferences, at which new contributions

would be made. The timing of such conferences could be linked to new Rounds of funding, or could occur on an annual or semi-annual basis. For example, International Development Association (IDA) replenishment conferences occur every three years, while those for the Global Environmental Facility (GEF) occur every four years. The duration of pledges would most logically be linked to the periodicity of the donors' conference, but could also be kept voluntary (e.g., could be allowed to extend beyond the date of the subsequent conference).

6. A burden-shared contribution system on a periodic basis would move the Global Fund closer to the model used for some other large multilateral initiatives, such as IDA and GEF. A burden-sharing formula would provide suggested floors for contributions (for governmental donors). Such a formula would likely be based on the size of a donor's economy (although for both IDA and GEF, a number of donors contribute disproportionate amounts compared to their economic size, which could also apply if the Global Fund adopted such an approach). Replenishment of these contributions would occur on a periodic basis (as noted above, for IDA and GEF these conferences occur every three and four years, respectively). The duration of pledges typically would be linked to the period between conferences.
7. A burden-shared system could also rely on pledges being made on an ad hoc basis. As with the above, minimum contributions would be based on an agreed-upon formula, but pledges could be made at the convenience of the donor and for a duration of the donor's choice.
8. The below table compares three aspects of these four options.

Table 1

Option	Size of contribution	Timing of contribution	Duration of contribution
A. <i>Voluntary, ad hoc</i>	Discretion of donor	Discretion of donor	Discretion of donor
B. <i>Voluntary, periodic</i>	Discretion of donor	Regular	Likely linked to timing of replenishment conferences
C. <i>Burden-shared, periodic</i>	Minimum is based on agreed-to formula	Regular	Likely linked to timing of replenishment conferences
D. <i>Burden-shared, ad hoc</i>	Minimum is based on agreed-to formula	Discretion of donor	Discretion of donor

9. The following table outlines the advantages and disadvantages of each of these options.

Table 2

Option	Pros	Cons
A. <i>Voluntary, ad hoc (current approach)</i>	<ul style="list-style-type: none"> • Donors have the opportunity to see the added-value of the Global Fund's approach before committing additional resources • Most flexible, as resources could increase rapidly 	<ul style="list-style-type: none"> • May not create predictable and sustainable financing that would permit longer term financial planning (either for the Global Fund or for recipients) • Unless most donors use

	<p>(particularly if funding needs are known, potentially generating demand for larger contributions), which may be important until “steady-state” of needs is reached</p> <ul style="list-style-type: none"> • Facilitates the participation of the private sector • Allows ‘matching grant’ concept, which may create virtuous cycle of increasing contributions 	<p>promissory notes for contributions, large cash balances likely, since liquid assets would be needed to back financial commitments in the absence of regular, long-term commitments from donors</p> <ul style="list-style-type: none"> • Contributions may be smaller than those produced by regular burden-shared pledging processes (particularly if a vicious cycle of small pledges from potentially major donors occurs) • Constant need for resource mobilization, which may be reliant on prevailing economic/political conditions
<i>B. Voluntary, periodic</i>	<ul style="list-style-type: none"> • Same as above • May improve predictability (vs. Option A) • May create upward pressure on contributions (vs. Option A) 	<ul style="list-style-type: none"> • Same as above
<i>C. Burden-shared, periodic</i>	<ul style="list-style-type: none"> • Increased degree of predictability and corresponding ability to develop long term plans (for both Global Fund and recipients) • Reduces need for large cash balances by allowing development of a system that links encashment of contributions to disbursement needs (through use of irrevocable instruments of commitment) • Could increase the volume of resources – particularly if large donors make significant contributions, which set high threshold for others, or if donors choose to exceed burden-shared amount 	<ul style="list-style-type: none"> • Supply-driven model based on donor commitments rather than need • Resource envelope available from official donors would be known, which may put downward pressure on number and size of applications • Danger of setting low “cruising altitude” (not necessarily reflective of need) that may be difficult to increase • Process of determining the resources envelope and allocation could be contentious • If large donors did not contribute significantly, could put downward pressure on the rest • Moves away from model of public-private partnership as the private sector cannot meaningfully contribute in a fully burden-shared approach • Danger of creating parallel policy-making forum (if replenishment conferences also addressed substantive issues)

D. <i>Burden-shared, ad hoc</i>	<ul style="list-style-type: none"> • Same as above • Reduces danger of creating a parallel policy-making forum (vs. Option C) 	<ul style="list-style-type: none"> • Same as above • Provides less predictability (vs. Option C)
---------------------------------	---	--

10. In addition to the above approaches, there are myriad combinations of these basic modalities. For example, either of the approaches above that utilize periodic replenishments (options B. and C.) could be complemented by ad hoc contributions from the private sector (and possible some small countries), as could either of the burden-shared options (options C. and D.). Such approaches could be further developed if there is an agreement in principle on the use of any burden-shared mechanism.

For further discussion

11. If an approach significantly different than the current system is adopted, it would not be utilized immediately, and the process for operationalizing it would require further input from the Board.
12. Similarly, it is beyond the scope of this paper to identify all possible sources of funds. Therefore, the use of “donors” is expansive, encompassing governments, the private sector and foundations, individuals, and non-governmental organizations, as well as non-traditional approach for mobilizing resources (such as debt relief). These approaches would change the envelope of funds available, but not the basic modalities of resource-mobilization.

Part 2: Policies for approving proposals and signing grant agreements

1. At its Fifth meeting in June 2003, the Board approved policies for approving proposals and signing grant agreements for the Third Round of applications to the Global Fund. These were based on existing operational practices: approving proposals based on pledges due to be paid in the calendar year of the Board meeting, and signing grant agreements based on liquid assets deposited with the Trustee.
2. The Board asked that these approaches and other aspects in the process of approving proposals and signing grant agreements be readdressed as part of a comprehensive funding policy paper. The options for this section are presented through a series of questions and sub-questions.

Question 1: Should the Board adopt a guiding principle of approving proposals on the availability of resources, or approving all technically-sound proposals, contingent upon resources becoming available?

3. In the first two Rounds, two approaches have guided the process of approving proposals:
 - e) proposals are approved up to the total of resources currently available and
 - f) all TRP-recommended proposals are approved.

4. It has been possible for these two approaches to co-exist in Rounds One and Two because resources were not constrained. However, it is important to establish the principle that guides proposal approval: are proposals approved up to the amount of resources available, or are all TRP-recommended proposals approved contingent upon resources becoming available?
5. The below tables describes the possible general principles by which the Board approves proposals. The process for implementing either of these would need to be further developed (as discussed in subsequent sections).

Table 3

Option	Pros	Cons
A. <i>TRP-recommended proposals should be approved up to the total of resources available</i>	<ul style="list-style-type: none"> • Allows a matching of approvals to available resources (meaning that it is possible to rapidly progress to grant signings) 	<ul style="list-style-type: none"> • Moves away from approving all technically-sound proposals (supply determines funding rather than purely technical quality)
B. <i>All TRP-recommended proposals should be approved, contingent upon sufficient resources being made available</i>	<ul style="list-style-type: none"> • Ensures that all technically-sound applications will be funded • Reflects a needs-based approach 	<ul style="list-style-type: none"> • Raises expectations of applicants, who expect to be able to progress rapidly into implementation which may not be possible because of the lack of available funds to sign grant agreements • May force postponement of future Rounds of financing by tying up large amount of resources

Question 2: What commitment is being made when a proposal is approved and when a grant agreement is signed?

6. A policy on approving proposals and signing grant agreements must address two aspects: the duration of the Global Fund's commitment and the resources required to make such commitments.
7. At its fifth meeting, the Board addressed the resources required to approve proposals and to sign grant agreements, adopting a principle that proposal approval is based on pledges available, while grant signing is based on liquid assets deposited with the Trustee^{*}. However to date the duration of commitment has been ambiguous: applications to the Global Fund typically cover a five-year period, but the practice in Rounds One and Two was to consider the two-year budgets when determining if sufficient pledges were available for approving proposals – implying that only the first two years were assured of funding[†] – and

^{*} There are other factors that have a smaller influence the amount of money available for commitment, as discussed below.

[†] The use of "assured" should not be interpreted as meaning that applicants will automatically receive all such funds: the Global Fund's performance-based funding approach means that should an applicant not achieve and demonstrate results on an on-going basis, it may not receive the full amount of funds initially committed to it. Thus "assured" in this context refers to the fact that resources have been reserved for applicants, which would be disbursed contingent upon performance.

successful applicants were told that the Board has approved the first two years of the proposal. The difference between these commitments is considerable: years one and two together amount to US\$1.5 billion, while the figure for the entire duration of approved proposals is nearly US\$3.7 billion.

8. The table below addresses both the duration of the Global Fund's commitment and the resource needs for proposal approval and grant signing. It also addresses the "risk" level of each option, looking at two aspects of risk:
 - g) The danger that the Global Fund would find itself in a position of having approved a proposal but not having sufficient funds to sign a grant agreement;
 - h) The danger that the Global Fund would find itself in a position of having signed a grant agreement but not having sufficient assets on hand to respond to a disbursement request.
9. These risks affect both the recipient – which might not have sufficient funds to meet its commitments – and the Global Fund.
10. Finally, it assesses the trade-off between providing greater certainty to recipients (which would enable them to better plan and likely also to secure better prices on longer-term procurements and contracts) and ensuring that sufficient resources are available to approve new proposals.

Table 4

Option[‡]	Requirement for proposal approval	Continuation of program beyond year 2	Requirement for grant signing[§]	Risk that funds would not be available for duration of entire proposal	Risk that funds would not be available to respond to disbursement requests	Pros	Cons
A.	Entire duration covered by assets available at time of Board approval	Dependent on success of program (reserves assured)	Assets deposited with the Trustee to cover 5 year commitment	Zero risk	Zero risk for duration of entire proposal	Provides maximum guarantee to recipients that funds will always be available to respond to disbursement requests, facilitating undertaking of long-term commitments	Unless considerable additional assets contributed in the short-term, no new proposals could be approved for foreseeable future (insufficient assets are available to cover Rounds One and Two alone under this approach)
B.	Entire duration covered by pledges due to be paid in calendar year of Board approval	Dependent on success of program (reserves assured)	Assets deposited with the Trustee to cover 2 year commitment	Very low risk	Zero risk for first 2 years Very low risk for subsequent years	Provides very firm guarantee to recipients that funds will always be available to respond to disbursement requests, facilitating undertaking of long-term commitments	Unless considerable additional pledges are made in the short-term, no new proposals could be approved for foreseeable future (insufficient pledges are available to cover Rounds One and Two alone under this approach)
C. 1	First 2 years covered by	Dependent on success of program	Assets deposited with the Trustee to	Low risk	Zero risk for first 2 years	Provides firm guarantee to	No guarantee that sufficient pledges will be made to

[‡] The existing two-year/five-year time horizon has been kept for these options. This could be changed, but in the absence of a compelling rationale for so doing and clearly preferable alternatives, there seems little reason to do so, given the confusion and operational difficulties that this would create.

[§] The definition of what is considered an “asset” is discussed below.

	pledges due to be paid in current year	and on additional pledges (renewals prioritized over new applications)	cover 2 year commitment		Low risk for subsequent years	recipients that funds will be available to respond to disbursement requests, facilitating undertaking of long-term commitments	cover continuations, jeopardizing programs that have commenced long-term activities Requirements for renewals may prevent new proposals from being approved, unless considerable additional resources are mobilized
C.2	First 2 years covered by pledges due to be paid in current year	Dependent on success of program, on additional pledges, and on proposal competing with new applications (renewals not prioritized over new applications)	Assets deposited with the Trustee to cover 2 year commitment	Moderate risk	Zero risk for first 2 years Moderate risk for subsequent years	Provides some guarantee to recipients that funds will always be available to respond to disbursement requests, enabling undertaking of long-term commitments	No guarantee that sufficient pledges will be made to cover continuations, jeopardizing programs that have commenced long-term activities May not provide enough certainty to some recipients to commence long-term activities
D.1	First year covered by pledges due to be paid in current year Second year to be covered by pledges due to be paid in subsequent year	Dependent on success of program and on additional pledges (renewals prioritized over new applications)	Assets deposited with the Trustee to cover 1 year commitment	Low risk	Zero risk for first year Low risk for second year Low risk for subsequent years	Provides very limited guarantee to recipients that funds will always be available to respond to disbursement requests, potentially enabling undertaking of long-term commitments Enables more proposals to be approved	May not provide enough certainty to some recipients to commence long-term activities No guarantee that sufficient pledges will be made to cover continuations, jeopardizing programs that have commenced long-term activities Disadvantages new proposals at the expense of

							renewals, even if the new applications are more technically-sound
D.2	<p>First year covered by pledges due to be paid in current year</p> <p>Second year to be covered by pledges due to be paid in subsequent year</p>	<p>Dependent on success of program, on additional pledges, and on proposal competing with new applications (renewals <i>not</i> prioritized over new applications)</p>	<p>Assets deposited with the Trustee to cover 1 year commitment</p>	<p>Moderate risk</p>	<p>Zero risk for first year</p> <p>Low risk for second year</p> <p>Moderate risk for subsequent years</p>	<p>Enables more proposals to be approved</p>	<p>May not provide enough certainty to some recipients to commence long-term activities</p> <p>No guarantee that sufficient pledges will be made to cover continuations, jeopardizing programs that have commenced long-term activities</p>

11. In addition to the above basic approaches, there are several options that might improve the efficiency and/or fairness of the proposal approval and grant signing process. These approaches are not mutually exclusive, and each of them are compatible with several of the options describe above. The first two affect the amount of pledges available, while the third influences asset holdings.
12. First, in the options above that commit pledges for the entire duration of a proposal (i.e., Options A and B), the commitment levels could be readjusted after two years to reflect performance. Even a successful proposal that is being continued after two years might have spent less than 100% of its approved total in the first two years. Aligning the amount set aside for the subsequent years of this project with the performance in the first two years could enable funds to be used more effectively, such as for approving additional proposals (i.e., rather than unnecessarily tying up funds that will likely never be disbursed). However, in the absence of much experience on changing disbursement rates over time, there is a risk that insufficient pledges will be set aside, potentially placing the Global Fund in a situation in which it could not meet its obligations to recipients (i.e., disbursement requests could not be met).
13. The second approach addresses the fact that in many of the options covered above, proposals considered at a Board meeting occurring at the beginning of a calendar year would have an advantage over proposals considered at the end of a year. In Options B-F, if a proposal is discussed at a Board meeting that occurs in December, the only pledges available for commitment are those due to be paid in the final month of the month (plus any pre-existing uncommitted resources). In contrast, a proposal considered in January would benefit from the availability of pledges due to be paid over the course of the subsequent 12 months (plus any pre-existing uncommitted resources). Thus in a resource-constrained environment, a proposal's likelihood of being approved would increase dramatically if by chance it was considered at the beginning of a calendar year, rather than at the end.
14. Ideally, each proposal would be considered in light of pledges due to be paid in a comparable period, but in practice this is quite difficult, given the fact that pledges are made on a calendar year basis. One option for addressing this would be to realign the period over which pledges are considered available if proposal approval occurs at the end of a calendar year. For example, if proposal approval occurs in the final quarter of a calendar year, up to 25% of pledges due to be paid in the subsequent calendar year could be considered available for commitment. The major risk with this approach is that if proposal approval is rapidly followed by grant signing in a large majority of cases, pledges for the subsequent year would have to be converted to liquid assets quite rapidly, lest sufficient funds not be available for grant signings.
15. Third, if disbursement rates were known – based on actual experience over a considerable period of time – it would be possible to link asset holdings to the projected amount of funds needed for disbursement over a given period. This has the benefit of reducing the need for liquid assets. However, it increases the risk that assets would not be available to cover all disbursement requests. Additionally, it would be difficult to operationalize until more experience is gained on disbursement rates, and more donors commit to longer-term financing.

Question 3: What other factors influence the pool of resources available for commitment?

16. In addition to pledges and assets, several other factors contribute to determining the amount of money available for proposal approval or for grant signing. Some of these are clear-cut and do not require any policy decisions, such as the facts that operational expenses must be covered by contributions and that interest income on assets should be added to the pool of funds available.
17. The largest factor requiring a policy decision is the amount of funds reserved to cover the possibility of a successful appeal. Under the rules of the resource mechanism, proposals that have been unsuccessful in two consecutive Rounds can appeal the Technical Review Panel’s categorization. An independent panel reviews these appeals and makes recommendations to the Board. To date, two proposals were appealed (out of a total of 31 eligible proposals), and the appeals panel has recommended that one of these be approved.

Table 5

Option	Pros	Cons
<i>D. Reserve the full amount of all possible appeals</i>	<ul style="list-style-type: none"> • Guarantees that sufficient funds are available to immediately fund all possible appeals 	<ul style="list-style-type: none"> • Likely to tie up a large amount of funds that will never be required, reducing the amount available for commitment to new proposals or renewals
<i>E. Reserve a percentage of the value of all possible appeals</i>	<ul style="list-style-type: none"> • Likely to cover appeals without unnecessarily tying up resources 	<ul style="list-style-type: none"> • May result in situation in which not all successful appellants can be immediately funded • Difficult to determine appropriate percentage given lack of experience and of comparable approaches elsewhere
<i>F. Reserve no funds for appeals and fund them immediately if resources are available, or as soon as new resources become available</i>	<ul style="list-style-type: none"> • Increases pool of funds available for commitment 	<ul style="list-style-type: none"> • Raises concerns about fairness if an appeal is successful but not immediately funded • Requires developing a system for including successful appeals in any “queue” that is created (see below)

18. The amount of committed to a recipient in a signed grant agreement may be reduced from what the Board has approved. This can occur either because of comments of the Technical Review Panel during the clarifications phase or in the process of grant negotiations. Although these savings are not major – through the end of June, US\$31 million was committed in grant agreements less than was approved, or about 6% of the total approved – it is nonetheless important to ensure that they are considered in the pool of funds available for commitment.

Question 4: Will the Global Fund always need to keep a large cash balance?

19. The answer to this is dependent on the forms in which donors can make contributions, and the option adopted from Table 4
20. There are several possible ways to define what is considered an asset for the purposes of entering into binding commitments, ranging from limiting contributions to cash, to a more expansive definition that encompasses various forms of instruments of credit. To date, both cash and promissory notes have been considered assets.

Table 6

Option	Pros	Cons
<i>G. Cash only</i>	<ul style="list-style-type: none"> • Provides greatest certainty • Easiest to manage 	<ul style="list-style-type: none"> • Not convenient for all donors • Runs risk of creating large cash balances
<i>H. Cash and promissory notes</i>	<ul style="list-style-type: none"> • Allows donors some choice while maintaining high degree of certainty of having assets on hand when needed 	<ul style="list-style-type: none"> • Introduces some administrative complexity • May introduce legal risk
<i>I. Cash, promissory notes, and other instruments of credit</i>	<ul style="list-style-type: none"> • Reduces the amount of cash on hand at any given moment 	<ul style="list-style-type: none"> • Increases administrative costs, as system must be developed for managing the calling of instruments of credit • May introduce legal risk • Not feasible for all donors

21. If Options B or C from the above were adopted, and donors made considerable use of promissory notes or other instruments of credit, the likelihood of having a large cash balance would diminish substantially.
22. The option selected from Table 4 above also impacts the level of cash reserves. The choices in Table 4 are listed in descending order of cash balances required (assuming that all donor contributions are in cash). Option A would thus require an extremely large cash balance, while Options E and F would require much smaller cash balance (because the due date of pledges is more closely aligned with disbursements). If some donors prefer promissory notes to cash, these requirements would obviously be diminished.

For further discussion

23. One additional factor that influences the amount of funds available for commitment but that is beyond the scope of this paper is how undisbursed funds (after both two and five years) are treated, both for successful (i.e., continuing) and unsuccessful programs. A process is already underway to address this, and it is anticipated that this will be addressed by the Board in early 2004. Similarly beyond the scope of the current paper is the fact that no clear process has been defined for what happens when a successful program reaches the end of its five-year grant. Would it have to reapply and compete with new applications, or

would there be a provision for these programs to be extended? Again, this is particularly pertinent for proposals that include the provision of life-long medicines.

Part 3: Selecting proposals in a resource-constrained environment**

1. As noted above, the Global Fund was established to respond to the needs faced in the fight against AIDS, tuberculosis, and malaria, as identified in technically-sound proposals. It is hoped that fund-raising efforts would provide sufficient funds to enable this to occur.
2. However, it is nonetheless prudent to develop policies to address potential funding shortfalls. Indeed, it is highly likely that there are insufficient resources to fully cover all TRP-recommended Round Three proposals, using the policies adopted for Round Three at the fifth Board meeting. Approximately US\$1.6 billion has been requested of the Global Fund over the next two years, of which perhaps 50% will be recommended by the TRP^{††}. To date, just over US\$1.9 billion has been paid or is due to be paid by the end of 2003, of which US\$1.5 billion is already committed. If the TRP recommends proposals with a total value of US\$800 million, the Round Three shortfall would amount to US\$400 million.
3. Although there is an urgent need to address how to prioritize Round Three proposals, the options outlined in this section take a broader view, looking at all aspects of how to select proposals in a resource-constrained environment.

Question 1: Should proposals be selected by further restricting applications, by prioritizing among TRP-recommended proposals, or by partially funding TRP-recommended proposals?

4. There are three distinct approaches to selecting proposals in a resource-constrained environment. One of these would affect the amount of funds requested – by further restricting applications – while the other two would apply after an application had been recommended by the Technical Review Panel.
5. The application process is relatively unconstrained at the moment: proposals are accepted from all countries except some wealthier ones that do not face a high disease burden, and although applications are not accepted on a rolling basis, Calls for Proposals have been issued approximately every six months. There are no limits on the size of proposals, and when additional requirements have been added (such as requiring co-financing in applications from countries categorized as lower- and upper-middle income), applicants are not bound by particular standards or required to provide a demonstration of a binding commitment. There are a number of possible *ex ante* restrictions that could be added to the application process, as discussed below.

** “Resource-constrained” here refers specifically to the Global Fund’s resource envelope. There are a number of possible alternative approaches to financing applications submitted to the Global Fund (e.g., through increased bilateral support, debt relief, or through other multilateral institutions. However, these are beyond the remit of this paper.

†† Based on an approval rate of 38% in Round One, 43% in Round Two, and assuming that proposal quality continues to improve.

6. To date, once the TRP has identified technically-sound proposals, the Board has fully funded all of them (i.e., prioritization is on technical merit only). However, the Board could either choose to approve only some TRP-recommended proposals, or could reduce the value of TRP-recommended proposals.

Table 7

Option	Pros	Cons
<i>J. Introduce further restrictions on applications</i>	<ul style="list-style-type: none"> • Most transparent approach • Some criteria likely to also have benefits in more effective implementation (e.g., co-financing requirements may improve sustainability) 	<ul style="list-style-type: none"> • Imprecise approach, meaning that there is a high likelihood of either overcorrecting – and so unnecessarily and artificially depress the pool of proposals – or undercorrecting, necessitating further selection criteria • Moves away from the principle that the Global Fund was created to respond to the global threat of AIDS, tuberculosis, and malaria, by excluding applications that could benefit populations in need
<i>K. Prioritize among TRP-recommended proposals</i>	<ul style="list-style-type: none"> • Allows accurate matching of resources with proposals • Can be used to promote a range of Global Fund principles (in addition to technical merit) • The principle of prioritizing applications based on various criteria has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • May be less transparent • Applicants may spend considerable time and resources preparing applications that have little chance of success (which may reduce future applications)
<i>L. Partially approve TRP-recommended proposals</i>	<ul style="list-style-type: none"> • Allows accurate matching of resources with proposals • Common practice in some comparable settings (e.g., competitive grants for scientific trials are often pro-rated) 	<ul style="list-style-type: none"> • May create considerable difficulties for applicants in determining which interventions should be cut (delaying implementation) • Arbitrarily treats all proposals equally, so punishes realistically budgeted proposals, creating a perverse incentive to inflate size of applications to compensate for anticipated reduction • May affect smaller proposals more than larger ones

7. These options are not mutually exclusive; indeed, the current system combines some restrictions on applications with prioritization on technical merit only. Nonetheless, for clarity, each option is discussed separately. Option A is further

described under Sub-question 1A, while Options B and C are covered under Sub-questions 1B and 1C, respectively.

Sub-question 1A: If the Board chooses to further restrict applications, how can this best be accomplished?

8. There are three major possible approaches to restricting demand on the Global Fund's resources.
 - i) Reduce the number of Calls for Proposals;
 - j) Introduce stricter eligibility criteria for the countries from which proposals are accepted;
 - k) Introduce stricter eligibility criteria for proposals.
9. Each of these methods has various permutations, as described below. With a few exceptions, these are not mutually exclusive.

Table 8

Approach	Option	Pros	Cons
<p>A. <i>Calls for Proposals</i></p>	<p>Reduce the frequency of Calls for Proposals</p>	<ul style="list-style-type: none"> • May improve quality of proposals by forcing a concentration of efforts 	<ul style="list-style-type: none"> • May not reduce demand, but rather simply concentrate it (meaning that the approach may not be of assistance selecting proposals) • May impede rapid implementation (because of the resulting large volume of applications approved at the same time)
	<p>Only announce Calls for Proposals if resources available pass a certain threshold</p>	<ul style="list-style-type: none"> • If demand can be accurately forecast, ensures that resources will be available to fully fund all TRP-recommended proposals 	<ul style="list-style-type: none"> • Longer the delay between Calls, the more demand becomes pent up, so Round that follows may be very large (and so may exceed threshold by a large amount, meaning that the approach may not be of assistance selecting proposals) • Moves away from the principle that the Global Fund was created to respond to the needs of the fight of AIDS, tuberculosis, and malaria (e.g., supply-driven approach) • Creates unpredictability for recipients (and so creates incentives for large proposals because timing of next Round is not known)
<p>B. <i>Eligibility criteria affecting countries</i></p>	<p>Further restrict which countries are eligible to apply to the Global Fund based on income classifications</p>	<ul style="list-style-type: none"> • Increases the poverty-focus of the Global Fund 	<ul style="list-style-type: none"> • May exclude proposals that would benefit large number of people not currently (or likely to otherwise) receiving services in countries deemed ineligible • After lengthy discussions, the PMPC has recommended continuing with the approach currently in use

	Further restrict which countries are eligible to apply to the Global Fund based on disease-related need	<ul style="list-style-type: none"> Increases the needs-focus of the Global Fund 	<ul style="list-style-type: none"> Difficult to identify indicators for disease-related need (particularly for disease risk) May exclude proposals that would benefit large number of people not currently (or likely to otherwise) receiving services in countries deemed ineligible After lengthy discussions, the PMPC has recommended continuing with the approach currently in use
C. <i>Eligibility criteria affecting proposals</i>	Introduce stricter requirements for demonstrating the additionality of request resources to current resources	<ul style="list-style-type: none"> Improves efficiency of investments, by better matching of resources allocated with spending capability Increasingly important given the large increase in resources available through other new initiatives 	<ul style="list-style-type: none"> Difficult to operationalize because of difficulties defining absorptive capacity (no/few objective indicators, considerable differences across different types of interventions, etc.) Absorptive capacity likely to increase as financing becomes available, so inappropriate to base calculations on current capacity
	Introduce stricter requirements for demonstrating co-financing of programs	<ul style="list-style-type: none"> Likely to support sustainability Reduces burden to Global Fund while ensuring support to a program 	<ul style="list-style-type: none"> Difficult to operationalize because of the timing of budgets and funding cycles in a country unlikely to be harmonized with timing of Global Fund applications, and because of the fungibility of budgets May disadvantage applications based on non-public sector interventions (because many potential co-financiers work exclusively/solely through governments)
	Introduce stricter requirements for demonstrating a focus on vulnerable	<ul style="list-style-type: none"> Creates incentive to address needs of populations otherwise 	<ul style="list-style-type: none"> Difficult to operationalize because of difficulty defining and identify

	and/or underserved populations	<ul style="list-style-type: none"> underserved/marginalized Should improve allocative efficiency within a country (by reducing likelihood that resources are captured by elites) 	<ul style="list-style-type: none"> populations May disadvantage countries facing generalized epidemics
	Introduce stricter requirements for demonstrating an increasing reliance on domestic resources	<ul style="list-style-type: none"> Supports sustainability Reduces burden to Global Fund while ensuring support to a program 	<ul style="list-style-type: none"> May disadvantage applications from poorer/smaller countries May disadvantage applications based on non-public sector interventions (because it is likely to be more difficult for non-government actors to provide guarantees of multi-year financing)
	Set upper limits on proposal size	<ul style="list-style-type: none"> Reduces the possibility of small number of countries monopolizing limited resources 	<ul style="list-style-type: none"> May not reduce demand significantly (particularly because voluntary system seems to have reduced the size of applications in Round Three)

Sub-question 1B: If the Board chooses to prioritize among TRP-recommended proposals, what criteria should it use?

10. At its fifth meeting, the Board endorsed an approach for Round Three that entailed the TRP expanding the number of recommended categories, but also requested the development of options for prioritizing among recommended proposals.
11. In Rounds One and Two, sufficient resources were available to approve all TRP-recommended proposals. If adequate resources are not available, three approaches could be used to prioritize among technically-sound proposals:
- l) Approve proposals based solely on technical merit, by asking the TRP to produce additional gradations in the categorization of proposals that it recommends;
 - m) Develop an algorithm that utilizes objective answers to a series of questions to group proposals into priority categories;
 - n) Develop a composite index that weighs and combines different criteria to assign a single “score” to each proposal, allowing priority groups to be formed.
12. The below table describes the advantages and disadvantages for each of these methodologies.

Table 9

Option	Pros	Cons
<i>A. Use technical merit only</i>	<ul style="list-style-type: none"> • Heightens emphasis on quality of proposals submission 	<ul style="list-style-type: none"> • May be difficult to achieve fine enough gradation to allow prioritization (particularly if shortfall is large), potentially necessitating a considerable shift in the functioning of the TRP
<i>B. Use an algorithm to prioritize among TRP-recommended proposals</i>	<ul style="list-style-type: none"> • Simple and relatively transparent 	<ul style="list-style-type: none"> • May be difficult to develop algorithm, particularly because it requires prioritization among principles (because criteria cannot receive equally weighting)
<i>C. Use a composite index to prioritize among TRP-recommended proposals</i>	<ul style="list-style-type: none"> • Allows principles to be weighted equally • Used in some other similar settings 	<ul style="list-style-type: none"> • May be less transparent • May be difficult to develop weighting system

13. The following table lists (in alphabetical order) criteria that can be used with either of these options, along with how they could be utilized for prioritizing proposals and the pros and cons to doing so.

Table 10

Criteria	Option	Pros	Cons
<i>D. Absorptive capacity</i>	Favor proposals that provide a clear demonstration of how resources will be absorbed and used	<ul style="list-style-type: none"> • Likely to improve efficiency of investments by better matching resources allocated with spending capability • Principle of prioritizing applications that demonstrate absorptive capacity has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • Difficult to operationalize because of difficulties defining absorptive capacity (no/few objective indicators, considerable differences across different types of interventions, etc.) • Absorptive capacity likely to increase as financing becomes available, so inappropriate to base calculations on current capacity • May unnecessarily depress size of proposals as applicants fear negative appraisals of absorptive capacity • “Double-counting” if it is also considered by the TRP
<i>E. Additionality</i>	Favor proposals that provide a clear demonstration of how resources will be additional to existing financing	<ul style="list-style-type: none"> • Ensures the Global Fund contributions will supplement rather than replace existing resources • Principle of prioritizing proposals that demonstrate additionality has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • Difficult to operationalize because of difficulties defining and measuring additionality
<i>F. Co-financing</i>	Favor proposals that provide clear demonstration of co-financing (either from domestic or external resources)	<ul style="list-style-type: none"> • Likely to support sustainability 	<ul style="list-style-type: none"> • Difficult to operationalize because of the timing of budgets and funding cycles in a country unlikely to be harmonized with timing of Global Fund applications, and because of the fungibility of budgets • May disadvantage applications based on non-public sector interventions (because many potential co-financiers work exclusively/solely

			through governments)
<i>G. Disease burden</i>	Favor proposals from countries meeting eligibility criteria for Upper-Middle Income countries (regardless of which income category they are in)	<ul style="list-style-type: none"> • Supports Global Fund principle of favoring neediest countries • Principle of prioritizing neediest countries has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • “Double-counting” if it is also used in eligibility criteria • Encompasses only disease burden, not potential for rapid growth
<i>H. Disease risk</i>	Favor proposals from countries that are facing the risk of a rapidly growing epidemic	<ul style="list-style-type: none"> • Supports Global Fund principle of favoring countries facing explosive epidemics • Principle of prioritizing neediest countries has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • Difficult to operationalize because of difficulties identifying appropriate indicators
<i>I. Focus on vulnerable and/or underserved populations</i>	Favor proposals that clearly identify interventions targeting vulnerable and underserved populations	<ul style="list-style-type: none"> • Creates incentive to address needs of populations otherwise underserved/marginalized • Should improve allocative efficiency within a country (by reducing likelihood that resources are captured by elites) 	<ul style="list-style-type: none"> • Difficult to operationalize because of difficulty defining and identify populations • May disadvantage countries facing generalized epidemics
<i>J. Political commitment</i>	1. Favor proposals that clearly address gaps in existing, up-to-date national strategic plan	<ul style="list-style-type: none"> • Creates incentive to harmonize with existing efforts, so may improve outcomes and sustainability • Principle of prioritizing proposals demonstrating complementarity to existing efforts has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • “Double-counting” if it is also looked at by TRP • Difficult to operationalize because of need for precision and transparency on what confers an advantage (e.g., the mere presence of a national strategic plan, or the evidence that this plan has been costed and financing for the gap is being sought by the Global Fund)
	2. Favor proposals from countries that spend more than a certain	<ul style="list-style-type: none"> • Avoids situation in which the Global Fund finances a proposal in a country 	<ul style="list-style-type: none"> • Measures government commitment, ignoring the private sector

	percentage of GDP on health	<p>that is itself contributing few resources to health</p> <ul style="list-style-type: none"> • Creates an incentive to increase health spending • Principle of prioritizing proposals demonstrating political commitment has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	
<i>K. Poverty</i>	1. Favor proposals from countries classified as Low or Lower-Middle Income above those from countries classified as Upper-Middle Income	<ul style="list-style-type: none"> • Clear, objective criteria, readily accessible and observable • In line with Global Fund principle of favoring neediest countries • Principle of prioritizing countries with the least ability to finance the fight against AIDS, tuberculosis and malaria has been discussed in Guidelines for Proposals since first Call for Proposals, so well-known to applicants 	<ul style="list-style-type: none"> • “Double-counting” of poverty if it is also used in eligibility criteria • Given small number of Upper-Middle Income countries currently eligible, it is unlikely to provide much assistance
	2. As a second step, favor proposals from countries classified as Low Income above those from countries classified as Lower-Middle Income	<ul style="list-style-type: none"> • As above • Would enable more significant reduction in volume of TRP-recommended proposals 	<ul style="list-style-type: none"> • As above • Would potential exclude many countries with highest disease burden (e.g., most of southern Africa would not be prioritized despite being the region with the highest HIV seroprevalence rates)
	3. Use a measure of per-capita income rather than existing income classification systems, enabling multiple threshold for prioritization to be set (i.e., instead of limited number with Low/Lower-Middle/Upper-Middle)	<ul style="list-style-type: none"> • Would enable finer gradations in income 	<ul style="list-style-type: none"> • Thresholds would be arbitrary (meaning that countries with a slight difference in income could be prioritized very differently) • Moves away from principle of building on existing systems

<i>L. Prior approval</i>	1. Favor proposals from countries that have unsuccessfully applied in two consecutive Rounds	<ul style="list-style-type: none"> • Promotes equitable access • Ensures distribution of Global Fund resources across a number of countries • Likely to favor countries with weakest capacity to prepare proposals (which are often countries facing highest need and with the least ability to mobilize resources) 	<ul style="list-style-type: none"> • Begins to approach a quota system (i.e., suggesting that every country deserves financing)
	2. Favor proposals from countries that have not previously received funding for any component	<ul style="list-style-type: none"> • Promotes equitable access • Ensures distribution of Global Fund resources across a number of countries • May be proxy for absorptive capacity 	<ul style="list-style-type: none"> • Disadvantages countries that successfully applied for modest Round 1 or 2 proposals believing that they could apply again • Works against developing incremental approach and strengthening absorptive capacity over time, instead encouraging large applications • May be biased against treatment proposals (because many countries did not include large scale ups of treatment programs in R1 or 2, in part because of uncertainty about Global Fund rules and sustainability, and because of desire to first build capacity) • Not mentioned in the Guidelines for Proposals to date, so raises issue of unfairly introducing new criteria after proposals are submitted • Negates the possibility of developing complementary approaches across diseases (e.g., building a TB aspect on a previously approved HIV component)

	3. Favor proposals from countries that have not previously received funding for the same component	<ul style="list-style-type: none"> • Promotes equitable access • Ensures distribution of Global Fund resources across a number of countries • May be proxy for absorptive capacity 	<ul style="list-style-type: none"> • As above
<i>M. Public-private partnerships</i>	Favor proposals that demonstrate clear public-private partnership (e.g., with at least 1/2 or 1/3 of resources requested to be spent by non-government sector)	<ul style="list-style-type: none"> • Promotes partnerships 	<ul style="list-style-type: none"> • May disadvantage integrated proposals and others that seek to strengthen health systems • May disadvantage large treatment proposals (which are typically predominantly public sector-driven)

14. In the event that prioritization criteria are used to decide whether proposals to immediately fund, it is necessary to determine how to handle proposals that are not immediately funded. In particular, proposals that are recommended by the TRP but for which there are insufficient funds to immediately approve can either be placed in a “queue” from which they would be funded when resources became available, or they would be asked to reapply in a subsequent Round.

Table 11

Option	Pros	Cons
<i>N. Queue: proposals are approved as soon as new funds become available</i>	<ul style="list-style-type: none"> • Maintains principle of funding all technically-sound proposals • Avoids problem of requiring technically-sound proposals to reapply • Provides more rapid response to applicants (vs. Option B) • May be easier to operationalize because rolling approvals may facilitate speeding up grant negotiations (instead of Secretariat having to deal with large number of new proposals at once) (vs. Option B) • Keeps clear distinction between Rounds (vs. Option B) 	<ul style="list-style-type: none"> • May create situation in which large volume of resources are reserved for queued proposals, leaving little for new applications (even if they are technically stronger than queued proposals) • May create ambiguity for applicants, who are in limbo until uncertain point in time when funds become available • Logistical issues of approval need to be addressed (e.g., Board approval by email?) (vs. Option B)
<i>O. Queue: proposals are approved only when subsequent Rounds of financing are considered</i>	<ul style="list-style-type: none"> • Maintains principle of funding all technically-sound proposals • Avoids problem of requiring technically-sound proposals to reapply • Clearer and simpler for communications (external and with applicants) (vs. Option A) 	<ul style="list-style-type: none"> • May create situation in which large volume of resources are reserved for queued proposals, leaving little for new applications (even if they are technically stronger than queued proposals) • May considerably increase volume of proposals approved at one time, potentially delaying grant signings
<i>P. No queue</i>	<ul style="list-style-type: none"> • Stays within resources immediately available • Provides clear and immediate feedback to applicants 	<ul style="list-style-type: none"> • Breaks with principle of approving all technically-sound proposals • May create downward pressure on new proposals, as applicants become discouraged at having submitted technically-sound proposals but not having been funded

15. If prioritization among TRP-recommended proposals occurs, the functioning of the appeals mechanism would need to be reviewed. Under Option A, appeals

could simply be added to the end of the queue. However, if either Option B or C is adopted, an inappropriate situation could ensue: a successful appeal of a category 3 proposal would be funded ahead of a proposal that was in category 2 but not funded immediately because of a lack of resources. This means that it potentially would be more advantageous to be placed in category 3 than in category 2, particularly if resources are very limited.

Sub-question 1C: If the Board chooses to partially approve proposals, what approach should it use?

16. In Rounds One and Two, the Board has approved TRP-recommended proposals in their entirety. However, this approach ignores the fact that budgets may be inflated in their initial submission (if applicants assume that budgets will be reduced) and that some parts of a proposal may be more technically-sound than other portions. Additionally, a number of approved proposals will not be able to spend all requested funds, at least within the initial two-year commitment, so it may be unnecessary to reserve the full value of a proposal.

Table 12

Option	Pros	Cons
<p>Q. <i>Proposals are approved for a percentage of the amount requested</i></p>	<ul style="list-style-type: none"> • Allows reduction in value of recommended proposals tailored to resources available • Common practice in some comparable settings (e.g., competitive grants for scientific trials are often pro-rated) 	<ul style="list-style-type: none"> • May create considerable difficulties for applicants in determining which interventions should be cut (delaying implementation) • Arbitrarily treats all proposals equally, so punishes realistically budgeted proposals, creating a perverse incentive to inflate size of applications to compensate for anticipated reduction • May affect smaller proposals more than larger ones
<p>R. <i>Proposals are evaluated on an objective-by-objective basis, rather than in their entirety</i></p>	<ul style="list-style-type: none"> • Allows targeting of resources to aspects of programs that may be most likely to succeed 	<ul style="list-style-type: none"> • May not artificially separate related parts of programs • May inadvertently exclude aspects of program that are most important but simply less well elaborated in proposal • Difficult to operationalize in a manner that enables sufficient reduction in value of proposals to fit supply available • Would require considerable changes in the functioning of the TRP

Part 4: Measuring the efficiency and effectiveness of the comprehensive funding policy

17. It is important to monitor the efficiency and effectiveness of the policies governing how the Global Fund mobilizes resources and expends them.
18. A series of indicators should be developed to address these issues from the international level – for example, percentage of global needs financed by the Global Fund or whether the volume of unmet needs has declined since the advent of the Global Fund – to the institutional level – for example, are liquid assets being put to the most efficient use possible.